

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Walled Lake, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Walled Lake, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets	19
Component Units:	
Statement of Net Assets	20
Statement of Activities	21-22
Notes to Financial Statements	24-39
Required Supplemental Information	40
Budgetary Comparison Schedule - General Fund	41-43
Budgetary Comparison Schedule - Major Streets Fund	44
Budgetary Comparison Schedule - Local Streets Fund	45
Note to Required Supplemental Information	46-47

City of Walled Lake, Michigan

Contents (Continued)

Other Supplemental Information	48
Statement of Revenue, Expenditures, and Changes in Net Assets:	
Downtown Development Authority	49
Walled Lake City Library	50



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Walled Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Walled Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules of the General Fund, Major Streets Fund, and Local Streets Fund, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Walled Lake, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walled Lake, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 9, 2006

City of Walled Lake, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Walled Lake's (the "City") financial performance provides an overview of the City of Walled Lake's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$16,000 this year.
- There was a 66 percent growth in the General Fund balance, from \$456,938 to \$760,112 in one fiscal cycle.
- Total net assets related to the City's governmental activities increased by approximately \$158,000 and the unrestricted deficit portion of net assets decreased by approximately \$232,000.
- The City continued its plan for a long-term investment in its road infrastructure by meeting with Tetra Tech, MPS, and mapping out a course for future road repairs. The projects completed during the current fiscal year included the repair and resurface of Lakeland Hills Subdivision, Arvida Street, and E. West Maple Road improvements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Walled Lake as a whole and present a longer-term view of the City of Walled Lake's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Walled Lake's operations in more detail than the government-wide financial statements by providing information about the City of Walled Lake's most significant funds. The fiduciary fund statements provide financial information about activities for which the City of Walled Lake acts solely as a trustee or agent for the benefit of those outside of the government.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years (in thousands of dollars):

Governmental Activities

				Changes from	
				Prior Year	
	June 30, 2004	June 30, 2005	June 30, 2006	in Dollars	Percent
	(in thousands)				
Assets					
Current assets	\$ 1,866	\$ 1,949	\$ 1,899	\$ (50)	(3)
Noncurrent assets	<u>11,441</u>	<u>11,291</u>	<u>10,987</u>	<u>(304)</u>	(3)
Total assets	13,307	13,240	12,886	(354)	(3)
Liabilities					
Current liabilities	1,142	1,360	1,192	(168)	(12)
Long-term liabilities	<u>4,431</u>	<u>4,122</u>	<u>3,778</u>	<u>(344)</u>	(8)
Total liabilities	<u>5,573</u>	<u>5,482</u>	<u>4,970</u>	<u>(512)</u>	(9)
Net Assets					
Invested in capital assets - Net of related debt	7,269	7,490	7,580	90	1
Restricted	777	592	428	(164)	(28)
Unrestricted deficit	<u>(312)</u>	<u>(324)</u>	<u>(92)</u>	<u>232</u>	(72)
Total net assets	<u>\$ 7,734</u>	<u>\$ 7,758</u>	<u>\$ 7,916</u>	<u>\$ 158</u>	2

We can see that the governmental activities' net assets experienced an increase of approximately \$158,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$232,000 for the governmental activities. This represents an increase of approximately 72 percent. The current level of unrestricted net assets for our governmental activities is a deficit of \$91,742.

While forecasting for the close of the 2005-2006 fiscal year and formulation of the 2006-2007 budget, City administrative staff maintained a diligent watch over our year-end expenditures and prepared the new budget on a "bare bones budget" strategy, eliminating all but necessities including out-of-state travel and many conferences. In respect to revenues, unlike other municipalities, the City was fortunate to continue to experience respectable revenues from the building department and also realized significant interest income as a result of climbing interest rates throughout the year. The combination of cost containment and increased revenues allowed the City to maintain adequate funding levels so services to our residents were not forced to be cut.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2

Governmental Activities

				Changes from	
	June 30, 2004	June 30, 2005	June 30, 2006	Prior Year	
				in Dollars	Percent
	(in thousands)				
Revenue					
Program revenue:					
Charges for services	\$ 964	\$ 1,103	\$ 910	\$ (193)	(17)
Operating grants and contributions	453	469	810	341	73
General revenue:					
Property taxes	2,924	3,171	3,334	163	5
State-shared revenue	648	633	627	(6)	(1)
Unrestricted investment earnings	46	39	131	92	236
Miscellaneous	93	59	131	72	122
Transfers	62	59	58	(1)	(2)
Total revenue	5,190	5,533	6,001	468	8
Program Expenses					
General government	969	743	910	167	22
Public safety	2,930	3,209	3,188	(21)	(1)
Public works	1,191	1,415	1,610	195	14
Recreation and culture	40	33	41	8	24
Interest on long-term debt	126	109	94	(15)	(14)
Total program expenses	5,256	5,509	5,843	334	6
Change in Net Assets	\$ (66)	\$ 24	\$ 158	\$ 134	558

While the taxable value for the City of Walled Lake continues to increase, unfortunately so does the cost of providing service to our residents. One of the largest increases the City continues to experience is the soaring cost of providing health care to our employees. City staff completed the remaining three union contract negotiations with the remaining groups this year and received some concessions on prescription health care coverage. These concessions will be beneficial to the financial future of the City.

Increases in expenditures were led by pension plan improvements and other contractual benefit costs. City administrative staff settled three union bargaining agreements which include the Department of Public Works, the City Hall staff, and the part-time firefighters contract. Salary settlements were paid to these three groups during the budget year, but these costs were anticipated during the formulation of the original budget. Attorney and litigation totals came in significantly lower, an overall decrease of 30 percent, than in the previous budget year as you will note on page 42 of the financial statements. We will continue to delay certain purchases with no immediate necessity.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City of Walled Lake's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit water system. We provide sewage services through a jointly owned treatment plant with the City of Novi operated by Oakland County. The 2006 summer season was relatively dry, which resulted in a normal rate of consumption from our water system. The continued development occurring in the City continues to place additional customers onto our water system. These additions provide cost benefits to the City and water consumers based upon the principles of supply and demand. The forecast for the Water Fund is optimistic and future rate increases should be minimal.

Over the past several years, the City has been absorbing the sewer treatment rate increases due to the high volume of sewer connection fees received and utilization of the fund balance for further shortages. As new development has slowed over the past several years, we have had to steadily increase the sewer rate per unit cost to our customers. In this past fiscal year, the final bond payment of \$350,000 was made, allowing us to make a significant decrease in our monthly debt service charge and helping to offset our consumption increases. We have now changed our focus in the Sewer Fund to maintaining capital replacement monies similar to what we have been doing in the Water Fund over the past several years.

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the two prior years (in thousands of dollars):

Business-type Activities

	June 30, 2004	June 30, 2005	June 30, 2006	Changes from Prior Year	
				in Dollars	Percent
	(in thousands)				
Assets					
Current assets	\$ 1,391	\$ 1,650	\$ 1,957	\$ 307	19
Noncurrent assets	7,855	7,526	7,144	(382)	(5)
Total assets	9,246	9,176	9,101	(75)	(1)
Liabilities					
Current liabilities	634	626	278	(348)	(56)
Long-term liabilities	447	80	65	(15)	(19)
Total liabilities	1,081	706	343	(363)	(51)
Net Assets					
Invested in capital assets - Net of related debt	7,138	7,133	7,142	9	0
Restricted	-	6	1	(5)	(83)
Unrestricted	1,027	1,331	1,615	284	21
Total net assets	<u>\$ 8,165</u>	<u>\$ 8,470</u>	<u>\$ 8,758</u>	<u>\$ 288</u>	3

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Statement of Changes in Net Assets

	June 30, 2004	June 30, 2005	June 30, 2006	Changes from Prior Year	
				in Dollars	Percent
	(in thousands)				
Operating revenues - Water and sewer	\$ 1,839	\$ 1,908	\$ 1,884	\$ (24)	(1)
Operating expenses - Water and sewer	<u>2,393</u>	<u>2,297</u>	<u>2,445</u>	<u>148</u>	6
Operating loss	(554)	(389)	(561)	(172)	44
Interest income	56	36	65	29	81
Interest expense	(99)	(33)	(15)	18	(55)
Capital charge/Tap-in fees	976	751	857	106	14
Transfers to other funds	<u>(62)</u>	<u>(59)</u>	<u>(58)</u>	<u>1</u>	(2)
Change in Net Assets	<u>\$ 317</u>	<u>\$ 306</u>	<u>\$ 288</u>	<u>\$ (18)</u>	(6)

The City of Walled Lake's Funds

Our analysis of the City of Walled Lake's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Walled Lake as a whole. The City of Walled Lake's council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City of Walled Lake's major funds for 2006 include the General Fund, Major Streets Fund, Local Streets Fund, and the Capital Projects Fund.

The General Fund pays for most of the City of Walled Lake's governmental services. The most significant are police and fire, which incurred expenses of approximately \$3,062,000 in 2006. These two services are partially supported by some service charges, grants, and contributions which are recorded in the General Fund. During the current year, this amounted to approximately \$556,000. The remaining \$2,506,000 cost of the police and fire departments is funded by other general revenue sources of the General Fund, including property taxes.

General Fund Budgetary Highlights

Over the course of the year, the City of Walled Lake amended the budget to take into account events during the year. The City of Walled Lake's departments, overall, exceeded the amended budget in public safety. This overage is attributed to an additional pay period prior to the end of the fiscal year, which was not accounted for at the time budget amendments were figured. However, revenues did exceed expenditures in total, which allowed the General Fund's fund balance to increase from \$456,938 to \$760,112 at June 30, 2006.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2006, the City of Walled Lake had approximately \$18,130,000 invested in a broad range of net capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City of Walled Lake has invested significantly in roads within the City of Walled Lake.

Economic Factors and Next Year's Budgets and Rates

The City of Walled Lake's budget for the 2006-2007 fiscal year saw a slight increase in the property tax rate through Public Act 298 of 1917. This act, along with approval by the City Council, enabled a millage of 0.1653 to be levied on all taxable property in the City according to the valuation of the property for refuse collection. The millage amount levied represents the amount equal to that of the Headlee Rollback for the 2006-2007 fiscal year.

The impact of Proposal A continues to have a significant effect on the City of Walled Lake property tax revenue and we must continue to watch our budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Walled Lake will grow less than inflation, before considering new property.

Sewer rates were increased for the 2006-2007 fiscal year by approximately 9 percent per unit (1,000 gallons) in order to bring our revenue and expenses more in line with one another. The fund balance and sewer tap-in fees have been utilized for the past several budget years in order to balance this Enterprise Fund, and as we near the final bond payment on our sewer expansion bonds, we are anticipating a steady increase in future years.

Contacting the City of Walled Lake's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Walled Lake's finances and to show the City of Walled Lake's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

City of Walled Lake, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,197,951	\$ 1,564,609	\$ 2,762,560	\$ 1,266,705
Receivables:				
Customers	-	276,006	276,006	-
Due from other governmental units	69,086	50,717	119,803	7,290
Other	64,104	-	64,104	27,427
Due from component units	450,664	-	450,664	-
Prepaid expenses and other assets	116,989	66,194	183,183	3,275
Restricted assets (Note 1)	-	1,178	1,178	-
Nondepreciable capital assets (Note 4)	1,572,172	-	1,572,172	-
Depreciable capital assets - Net (Note 4)	9,415,608	7,142,360	16,557,968	821,058
Total assets	12,886,574	9,101,064	21,987,638	2,125,755
Liabilities				
Accounts payable	186,660	266,918	453,578	23,636
Due to other governmental units	32,724	-	32,724	1,196
Due to primary government	-	-	-	450,664
Accrued and other liabilities	278,447	3,712	282,159	20,917
Cash advances and deposits	235,656	-	235,656	-
Noncurrent liabilities (Note 6):				
Due within one year	458,855	7,210	466,065	63,625
Due in more than one year	3,778,118	64,888	3,843,006	283,250
Total liabilities	4,970,460	342,728	5,313,188	843,288
Net Assets				
Invested in capital assets - Net of related debt	7,579,936	7,142,360	14,722,296	821,058
Restricted:				
Major and local streets	427,920	-	427,920	-
Library capital projects	-	-	-	15,496
Water and sewer projects	-	1,178	1,178	-
Unrestricted	(91,742)	1,614,798	1,523,056	445,913
Total net assets	\$ 7,916,114	\$ 8,758,336	\$ 16,674,450	\$ 1,282,467

City of Walled Lake, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 910,007	\$ 148,899	\$ 343,824	\$ -
Public safety	3,187,779	455,722	100,541	-
Public works	1,610,171	305,116	366,069	-
Recreation and culture	41,481	-	-	-
Interest on long-term debt	94,170	-	-	-
Total governmental activities	5,843,608	909,737	810,434	-
Business-type activities:				
Water	1,163,716	1,212,491	-	185,113
Sewer	1,283,405	623,021	-	671,807
Total business-type activities	2,447,121	1,835,512	-	856,920
Total primary government	<u>\$ 8,290,729</u>	<u>\$ 2,745,249</u>	<u>\$ 810,434</u>	<u>\$ 856,920</u>
Component units:				
Downtown Development Authority	\$ 868,234	\$ 13,660	\$ -	\$ -
Walled Lake City Library	428,061	16,216	14,263	5,560
Total component units	<u>\$ 1,296,295</u>	<u>\$ 29,876</u>	<u>\$ 14,263</u>	<u>\$ 5,560</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Special item - Loss on disposal of assets				
Total general revenues and special item				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (417,284)	\$ -	\$ (417,284)	\$ -
(2,631,516)	-	(2,631,516)	-
(938,986)	-	(938,986)	-
(41,481)	-	(41,481)	-
(94,170)	-	(94,170)	-
(4,123,437)	-	(4,123,437)	-
-	233,888	233,888	-
-	11,423	11,423	-
-	245,311	245,311	-
(4,123,437)	245,311	(3,878,126)	-
-	-	-	(854,574)
-	-	-	(392,022)
-	-	-	(1,246,596)
3,334,539	-	3,334,539	1,303,266
626,808	-	626,808	-
131,466	52,094	183,560	75,127
131,002	48,859	179,861	1,225
57,958	(57,958)	-	-
-	-	-	(132,000)
4,281,773	42,995	4,324,768	1,247,618
158,336	288,306	446,642	1,022
7,757,778	8,470,030	16,227,808	1,281,445
\$ 7,916,114	\$ 8,758,336	\$ 16,674,450	\$ 1,282,467

City of Walled Lake, Michigan

Governmental Funds Balance Sheet June 30, 2006

	Special Revenue Funds				Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects	
Assets					
Cash and investments (Note 3)	\$ 703,826	\$ 490,657	\$ 3,468	\$ -	\$ 1,197,951
Receivables:					
Due from other governmental units	11,595	42,020	15,471	-	69,086
Other	19,702	-	-	-	19,702
Due from other funds (Note 5)	17,976	-	65,000	-	82,976
Due from component units	450,664	-	-	-	450,664
Prepaid expenses and other assets	114,549	1,163	1,277	-	116,989
Total assets	<u>\$ 1,318,312</u>	<u>\$ 533,840</u>	<u>\$ 85,216</u>	<u>\$ -</u>	<u>\$ 1,937,368</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 116,774	\$ 43,905	\$ 25,981	\$ -	\$ 186,660
Due to other governmental units	32,724	-	-	-	32,724
Due to other funds	-	65,000	17,976	-	82,976
Accrued and other liabilities	173,046	37,484	790	-	211,320
Cash advances and deposits	235,656	-	-	-	235,656
Total liabilities	558,200	146,389	44,747	-	749,336
Fund Balances					
Reserved for prepaid expenses	114,549	-	-	-	114,549
Unreserved	645,563	387,451	40,469	-	1,073,483
Total fund balances	760,112	387,451	40,469	-	1,188,032
Total liabilities and fund balances	<u>\$ 1,318,312</u>	<u>\$ 533,840</u>	<u>\$ 85,216</u>	<u>\$ -</u>	<u>\$ 1,937,368</u>
Fund Balance - Total Governmental Funds					\$ 1,188,032
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					10,987,780
Compensated absences are included as a liability in governmental activities					(829,129)
Long-term liabilities and related accrued interest are not due and payable in the current period and are not reported in the funds					(3,474,971)
Delinquent property taxes are included as revenue in governmental activities					44,402
Net assets of governmental activities					<u>\$ 7,916,114</u>

City of Walled Lake, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Total Governmental Funds
Revenue					
Property taxes	\$ 3,337,251	\$ -	\$ -	\$ -	\$ 3,337,251
Licenses and permits	391,817	-	-	-	391,817
Federal sources	83,365	-	-	-	83,365
State sources	626,808	252,914	113,155	-	992,877
Charges for services	198,380	-	-	-	198,380
Fines and forfeitures	89,853	-	-	-	89,853
Interest earnings and rent	135,778	27,210	6	-	162,994
Contributions - Downtown Development Authority	272,300	-	-	-	272,300
DDA sharing agreement	321,000	-	-	-	321,000
Other	205,886	805	670	-	207,361
Total revenue	5,662,438	280,929	113,831	-	6,057,198
Expenditures					
Current:					
General government	1,011,661	-	-	-	1,011,661
Public safety	3,061,600	-	-	-	3,061,600
Public works	803,035	359,737	223,210	-	1,385,982
Recreation and cultural	21,351	-	-	-	21,351
Planning and development	-	-	-	376	376
Debt service	272,300	-	-	222,560	494,860
Total expenditures	5,169,947	359,737	223,210	222,936	5,975,830
Excess of Revenue Over (Under) Expenditures	492,491	(78,808)	(109,379)	(222,936)	81,368
Other Financing Sources (Uses)					
Transfers in	-	-	89,339	222,936	312,275
Transfers out	(189,317)	(65,000)	-	-	(254,317)
Total other financing sources (uses)	(189,317)	(65,000)	89,339	222,936	57,958
Net Change in Fund Balances	303,174	(143,808)	(20,040)	-	139,326
Fund Balances - Beginning of year	456,938	531,259	60,509	-	1,048,706
Fund Balances - End of year	\$ 760,112	\$ 387,451	\$ 40,469	\$ -	\$ 1,188,032

City of Walled Lake, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 139,326
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	106,860
Depreciation expense	(410,251)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	(2,712)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	393,307
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Accrued interest payable is recorded when due in governmental funds	7,383
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Increases in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	<u>(75,577)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 158,336</u>
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City of Walled Lake, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Water Fund	Sewer Fund	Total Enterprise Fund
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 1,179,925	\$ 384,684	\$ 1,564,609
Receivables:			
Customers	124,635	151,371	276,006
Due from other governmental units	50,717	-	50,717
Prepaid expenses and other assets	64,241	1,953	66,194
Total current assets	1,419,518	538,008	1,957,526
Noncurrent assets:			
Restricted assets (Note 1)	-	1,178	1,178
Capital assets - Net (Note 4)	779,170	6,363,190	7,142,360
Total noncurrent assets	779,170	6,364,368	7,143,538
Total assets	2,198,688	6,902,376	9,101,064
Liabilities			
Current liabilities:			
Accounts payable	66,411	200,507	266,918
Accrued and other liabilities	3,223	489	3,712
Current portion of compensated absences (Note 6)	3,605	3,605	7,210
Total current liabilities	73,239	204,601	277,840
Noncurrent liabilities - Compensated absences - Net of current portion (Note 6)	32,444	32,444	64,888
Total liabilities	105,683	237,045	342,728
Net Assets			
Investment in capital assets - Net of related debt	779,170	6,363,190	7,142,360
Restricted	-	1,178	1,178
Unrestricted	1,313,835	300,963	1,614,798
Total net assets	<u>\$ 2,093,005</u>	<u>\$ 6,665,331</u>	<u>\$ 8,758,336</u>

City of Walled Lake, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Water Fund	Sewer Fund	Total Enterprise Fund
Operating Revenue			
Customer usage billings	\$ 1,111,288	\$ 620,021	\$ 1,731,309
Tap-in fees and permits	11,129	3,000	14,129
Other charges for services	90,074	-	90,074
Other income	6,932	41,927	48,859
	<u>1,219,423</u>	<u>664,948</u>	<u>1,884,371</u>
Total operating revenue			
Operating Expenses			
Sewage treatment costs	-	787,328	787,328
Cost of water purchased	538,341	-	538,341
Depreciation	87,619	290,437	378,056
Personnel services	370,999	100,479	471,478
General and administrative	166,757	103,075	269,832
	<u>1,163,716</u>	<u>1,281,319</u>	<u>2,445,035</u>
Total operating expenses			
Net Operating Income (Loss)	55,707	(616,371)	(560,664)
Nonoperating Revenue (Expense)			
Interest income	32,744	31,847	64,591
Interest expense	-	(14,583)	(14,583)
	<u>32,744</u>	<u>(14,583)</u>	<u>18,161</u>
Income (Loss) - Before capital contributions	88,451	(599,107)	(510,656)
Capital Contributions - Capital charge/Tap-in fees	185,113	671,807	856,920
Transfers to Other Funds	(28,979)	(28,979)	(57,958)
Change in Net Assets	244,585	43,721	288,306
Net Assets - Beginning of year	1,848,420	6,621,610	8,470,030
Net Assets - End of year	<u>\$ 2,093,005</u>	<u>\$ 6,665,331</u>	<u>\$ 8,758,336</u>

City of Walled Lake, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Water Fund	Sewer Fund	Total Enterprise Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,124,959	\$ 610,967	\$ 1,735,926
Payments to suppliers	(537,607)	(766,588)	(1,304,195)
Payments to employees	(369,422)	(102,770)	(472,192)
Other payments	(73,957)	(62,236)	(136,193)
Net cash provided by (used in) operating activities	143,973	(320,627)	(176,654)
Cash Flows from Noncapital Financing Activities - Operating transfers out	(28,979)	(28,979)	(57,958)
Cash Flows from Capital and Related Financing Activities			
Collection of customer assessments	185,113	671,807	856,920
Principal and interest paid on capital debt	(36,220)	(345,322)	(381,542)
Net cash provided by capital and related financing activities	148,893	326,485	475,378
Cash Flows from Investing Activities			
Interest received on investments	32,744	19,350	52,094
Purchase of investment securities	(372,732)	(32,870)	(405,602)
Net cash used in investing activities	(339,988)	(13,520)	(353,508)
Net Decrease in Cash and Cash Equivalents	(76,101)	(36,641)	(112,742)
Cash and Cash Equivalents - Beginning of year	1,121,029	301,210	1,422,239
Cash and Cash Equivalents - End of year	<u>\$ 1,044,928</u>	<u>\$ 264,569</u>	<u>\$ 1,309,497</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 1,179,925	\$ 384,684	\$ 1,564,609
Less amounts classified as investments	(134,997)	(120,115)	(255,112)
Total cash and cash equivalents	<u>\$ 1,044,928</u>	<u>\$ 264,569</u>	<u>\$ 1,309,497</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 55,707	\$ (616,371)	\$ (560,664)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	87,619	290,437	378,056
Changes in assets and liabilities:			
Receivables	3,029	(17,150)	(14,121)
Other assets	(4,693)	4,008	(685)
Accounts payable	734	20,740	21,474
Accrued and other liabilities	1,577	(2,291)	(714)
Net cash provided by (used in) operating activities	<u>\$ 143,973</u>	<u>\$ (320,627)</u>	<u>\$ (176,654)</u>

Noncash Investing, Capital, and Financing Activities - In previous years, Oakland County issued bonds on behalf of the City of Walled Lake. Interest of approximately \$12,000 was earned on the related unspent construction proceeds during the year. Restricted assets of approximately \$18,000 consisting of assets held at the County were used to repay a portion of the outstanding bonds.

City of Walled Lake, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Retiree Health Care Fund	Agency
Assets		
Cash (Note 3)	\$ 15,670	\$ 76,659
Investments (Note 3):		
Bank investment pool	-	11,251
Equity mutual fund	220,191	-
Bond mutual fund	152,008	
Prepaid expense and other assets	5,687	-
Total assets	393,556	<u><u>\$ 87,910</u></u>
Liabilities		
Due to other governmental units	4,844	\$ -
Cash bonds and deposits	-	87,910
Total liabilities	4,844	<u><u>\$ 87,910</u></u>
Net Assets - Held in trust for employee benefits	<u><u>\$ 388,712</u></u>	

City of Walled Lake, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Retiree Health Care Fund
Additions	
Investment income:	
Interest and dividends	\$ 13,541
Net increase in fair value of investments	<u>15,266</u>
Net investment income	28,807
Contributions - Employer	<u>83,400</u>
Total additions	112,207
Deductions	
Retiree health care premium	68,416
Other	<u>9,593</u>
Total deductions	<u>78,009</u>
Change in Net Assets	34,198
Net Assets - Beginning of year	<u>354,514</u>
Net Assets - End of year	<u><u>\$ 388,712</u></u>

City of Walled Lake, Michigan

Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority	Walled Lake City Library	Total
Assets			
Cash and equivalents	\$ 998,334	\$ 268,371	\$ 1,266,705
Delinquent property tax receivable	27,427	-	27,427
Due from other governmental units	1,454	5,836	7,290
Prepaid expenses and other assets	-	3,275	3,275
Depreciable capital assets - Net (Note 4)	454,591	366,467	821,058
Total assets	1,481,806	643,949	2,125,755
Liabilities			
Accounts payable	20,473	3,163	23,636
Due to primary government	450,664	-	450,664
Due to other governmental units	1,196	-	1,196
Accrued and other liabilities	19,406	1,511	20,917
Noncurrent liabilities (Note 6):			
Due within one year	63,625	-	63,625
Due in more than one year	283,250	-	283,250
Total liabilities	838,614	4,674	843,288
Net Assets			
Investment in capital assets	454,591	366,467	821,058
Restricted	-	15,496	15,496
Unrestricted	188,601	257,312	445,913
Total net assets	\$ 643,192	\$ 639,275	\$ 1,282,467

City of Walled Lake, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 868,234	\$ 13,660	\$ -	\$ -
Walled Lake City Library - Recreation and culture	428,061	16,216	14,263	5,560
Total governmental activities	\$ 1,296,295	\$ 29,876	\$ 14,263	\$ 5,560
General revenues:				
Property taxes				
Unrestricted investment earnings				
Miscellaneous				
Special item - Loss on disposal of assets				
Total general revenues and special item				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Component Units
Statement of Activities
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Walled Lake City Library	Total
\$ (854,574)	\$ -	\$ (854,574)
-	(392,022)	(392,022)
(854,574)	(392,022)	(1,246,596)
914,235	389,031	1,303,266
61,999	13,128	75,127
1,225	-	1,225
(132,000)	-	(132,000)
845,459	402,159	1,247,618
(9,115)	10,137	1,022
652,307	629,138	1,281,445
\$ 643,192	\$ 639,275	\$ 1,282,467

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Walled Lake, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Walled Lake, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

The following component units are reported within the component units column in the accompanying financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The authority's governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council.
- b. The Walled Lake City Library is governed by a five-member board appointed by the mayor and approved by the City Council. The library is funded by two specially voted property tax levies.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is used to account for maintenance and construction of major public roads within the City.

Local Streets Fund - The Local Streets Fund is used to account for maintenance and construction of local public roads within the City.

Capital Projects Fund - The Capital Projects Fund is used to account for the development of capital facilities and repayment of debt service associated with those capital facilities other than those financed by the operations of a proprietary fund.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fiduciary fund types:

Retiree Health Care Fund - The Retiree Health Care Fund accounts for medical benefits provided to retirees.

Agency Fund - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as water and sewer distribution and collection. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with a final collection date of February 28 before they are added to the county tax rolls. The 2005 taxable valuation of the City totaled approximately \$232 million. The taxes levied and the resulting revenue by fund and component units were as follows:

	Millage Rate	Revenue
Operating millage - Net of portion captured by Downtown Development Authority	16.0360	\$ 3,192,256
Refuse millage - Net of capture	0.1653	32,961
Other - Tax collection and trailer park fees		<u>109,322</u>
Total governmental funds		<u>\$ 3,334,539</u>
Library Fund - Component unit	0.8017	\$ 159,859
Library Fund - Component unit	0.9898	229,172
Downtown Development Authority capture		<u>914,235</u>
Total component units		<u>\$ 1,303,266</u>

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Specific assets held at Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to Oakland County based on specific contracts with them.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	40 to 50 years
Water and sewer distribution systems	38 to 50 years
Buildings and building improvements	25 to 50 years
Vehicles	3 to 15 years
Furniture and equipment	3 to 30 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. In the fund financial statements, governmental fund types recognize debt issued as other financing sources.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Building permit revenue	\$ 222,496
Direct costs	(248,800)
Cumulative costs in excess of permit revenue:	
Beginning of year	<u>(11,931)</u>
End of year	<u>\$ (38,235)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Care Fund was organized under Public Act 149 of 1999. Under this act, the fund is authorized to invest in accordance with Public Act 314, and accordingly can invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated 12 banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City of Walled Lake's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$2,521,949 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The federal depository insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to the component units, if any, is not determinable.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City holds \$277,811 of U.S. agency securities with a weighted maturity of 7.6 years.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 375,436	Aaa	Moody's
	74,629	Aaa	Moody's
	58,000	Unrated	N/A
Interlocal agreement pools	94,153	Unrated	N/A
Mutual funds	378,142	Unrated	N/A
U.S. government agencies - FNMA	36,794	Unrated	N/A

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,572,172	\$ -	\$ -	\$ 1,572,172
Construction in progress	198,318	-	198,318	-
Subtotal	1,770,490	-	198,318	1,572,172
Capital assets being depreciated:				
Roads and sidewalks	8,922,223	198,318	-	9,120,541
Buildings and improvements	1,154,303	-	-	1,154,303
Vehicles	1,321,264	23,080	20,007	1,324,337
Furniture and equipment	900,952	83,780	-	984,732
Subtotal	12,298,742	305,178	20,007	12,583,913
Less accumulated depreciation	2,778,061	410,251	20,007	3,168,305
Net capital assets being depreciated	9,520,681	(105,073)	-	9,415,608
Net capital assets	\$ 11,291,171	\$ (105,073)	\$ 198,318	\$ 10,987,780
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 14,808,767	\$ -	\$ -	\$ 14,808,767
Furniture and equipment	994,252	-	-	994,252
Subtotal	15,803,019	-	-	15,803,019
Less accumulated depreciation	8,282,603	378,056	-	8,660,659
Net capital assets being depreciated	\$ 7,520,416	\$ (378,056)	\$ -	\$ 7,142,360

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Capital asset activity for the City's component units for the year was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Component Units				
Capital assets not being depreciated -				
Construction in progress	\$ 22,505	\$ -	\$ 22,505	\$ -
Capital assets being depreciated:				
Street lighting	270,400	460,334	254,400	476,334
Furniture and equipment	60,782	5,154	-	65,936
Books, periodicals, and materials	819,301	40,247	-	859,548
Subtotal	1,150,483	505,735	254,400	1,401,818
Less accumulated depreciation	595,321	107,839	122,400	580,760
Net capital assets being depreciated	555,162	397,896	132,000	821,058
Net capital assets	<u>\$ 577,667</u>	<u>\$ 397,896</u>	<u>\$ 154,505</u>	<u>\$ 821,058</u>

Depreciation expense was charged to programs of the primary government and component units as follows:

Governmental activities:	
General government	\$ 12,867
Public safety	141,401
Public works	235,853
Recreation and culture	20,130
Total governmental activities	<u>\$ 410,251</u>
Business-type activities:	
Water	\$ 87,619
Sewer	290,437
Total business-type activities	<u>\$ 378,056</u>
Component units:	
DDA	\$ 22,918
Library	84,921
Total component units	<u>\$ 107,839</u>

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Local Streets Fund	\$ 17,976
Local Streets Fund	Major Streets Fund	65,000
Total		<u>\$ 82,976</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Capital Projects Fund	\$ 164,978
General Fund	Local Streets Fund	24,339
Major Streets Fund	Local Streets Fund	65,000
Water Fund	Capital Projects Fund	28,979
Sewer Fund	Capital Projects Fund	28,979
Total		<u>\$ 312,275</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations, debt service costs, and projects accounted for in the respective funds.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements, capital leases, and installment purchase agreements are also general obligations of the government.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Limited Tax General Obligation Development Bonds:						
Amount of issue: \$2,500,000	5.65%-	\$200,000-				
Maturing through 2011	6.00%	\$250,000	\$ 1,300,000	\$ (200,000)	\$ 1,100,000	\$ 200,000
Building Authority Complex Bond:						
Amount of issue: \$1,400,000	4.00%-	\$25,000-				
Maturing through 2022	6.00%	\$100,000	1,325,000	(25,000)	1,300,000	50,000
Total general obligation bonds			2,625,000	(225,000)	2,400,000	250,000
Installment purchase agreements:						
Bundo property:						
Amount of issue: \$995,000	4.80%	\$100,000-				
Maturing through 2011		\$145,000	745,000	(100,000)	645,000	110,000
Fire truck:						
Amount of issue: \$551,180	5.09%	\$50,646-				
Maturing through 2011		\$68,220	413,490	(50,646)	362,844	53,224
Honeywell, Inc. capital lease:						
Amount of issue: \$184,500	5.95%	\$17,661-				
Maturing through 2006		\$22,364	17,661	(17,661)	-	-
Total installment purchase agreements			1,176,151	(168,307)	1,007,844	163,224
Total general obligation bonds and installment purchase agreements			3,801,151	(393,307)	3,407,844	413,224
Other long-term obligations - Compensated absences			753,552	75,577	829,129	45,631
Total governmental activities			4,554,703	(317,730)	4,236,973	458,855
Business-type Activities						
County contractual agreement:						
Walled Lake - Novi wastewater treatment plant enlargement:						
Amount of issue: \$2,600,000	5.00%	\$350,000	350,000	(350,000)	-	-
Maturing through 2006						
Government Capital Corp. capital lease:						
Amount of issue: \$90,000	6.495%	\$18,022-				
Maturing through 2007*		\$19,228	37,981	(37,981)	-	-
Total county contractual obligations and capital lease			387,981	(387,981)	-	-
Other long-term obligations - Compensated absences			68,576	3,522	72,098	7,210
Total business-type activities			456,557	(384,459)	72,098	7,210
Component Unit						
Walled Lake Consolidated School Agreement:						
Amount of issue: \$769,000	-	\$52,000-				
Maturing through 2012		\$63,625	410,500	(63,625)	346,875	63,625
Total component unit			410,500	(63,625)	346,875	63,625
Total governmental activities, business-type activities, and component unit			\$ 5,421,760	\$ (765,814)	\$ 4,655,946	\$ 529,690

* Capital lease was paid off during current year

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Annual debt service requirements, exclusive of compensated absences, for the above bonds and note obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 413,224	\$ 170,729	\$ 583,953	\$ 63,625	\$ -	\$ 63,625
2008	430,933	148,240	579,173	63,625	-	63,625
2009	483,780	124,393	608,173	63,625	-	63,625
2010	501,772	94,257	596,029	52,000	-	52,000
2011	484,916	73,037	557,953	52,000	-	52,000
2012-2016	493,219	201,797	695,016	52,000	-	52,000
2017-2021	500,000	94,200	594,200	-	-	-
2022	100,000	4,800	104,800	-	-	-
Total	<u>\$ 3,407,844</u>	<u>\$ 911,453</u>	<u>\$ 4,319,297</u>	<u>\$ 346,875</u>	<u>\$ -</u>	<u>\$ 346,875</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool for claims relating to general liability and property, unemployment compensation, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Defined Benefit Pension Plan (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$408,984 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, noncompounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension cost (APC)	\$ 360,943	\$ 387,292	\$ 408,984
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Defined Benefit Pension Plan (Continued)

	Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 2,377,680	\$ 2,667,445	\$ 2,996,775
Actuarial accrued liability (entry age) (AAL)	\$ 7,356,494	\$ 7,622,313	\$ 9,593,477
Unfunded AAL (UAAL)	\$ 4,978,814	\$ 4,954,868	\$ 6,596,702
Funded ratio	32%	35%	31%
Covered payroll	\$ 2,243,260	\$ 2,102,954	\$ 2,260,917
UAAL as a percentage of covered payroll	222%	236%	292%

Note 9 - Defined Contribution Retirement Plan

The City provides pension benefits to substantially all employees other than those included in a collective bargaining unit through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Walled Lake City Council, the City contributes 7 percent to 10 percent of employees' base earnings. The employees are not required to make a contribution but may make a voluntary contribution. In accordance with these requirements, the City contributed \$13,703 during the current year, and the employees contributed \$5,807.

Note 10 - Joint Venture

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority"). The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. During the current year, the City contributed approximately \$5,700 for its operations. Complete financial statements for the Authority can be obtained from the administrative offices at 20000 West 8 Mile Road, Southfield, Michigan 48075.

Note 11 - Contingent Liability - Disputed Property Taxes

The City has collected approximately \$96,000 in taxes, which are now being disputed by various property owners. The majority of these disputed taxes, approximately \$71,000, relate to personal property taxes, and the remaining amount, approximately \$25,000 relates to real property taxes. The disputed personal property taxes are the result of new personal property tax tables issued by the State. The real personal property tax dispute is in the process of being settled. Accordingly, the City has accrued \$96,000 for the potential refund of these disputed property taxes.

Note 12 - Retiree Health Care Fund

Effective January 1, 2000, the City entered into an agreement with its employees to provide retiree health care benefits. Under terms of the agreement, the City is required to set aside \$75 per pay for each employee. Of this amount, \$70 is set aside to pay premiums of up to \$800 per month for retiree health care. The other \$5 is set aside to reimburse employees, who upon retirement or separation from the City do not wish to participate in the retiree health care program. The \$75 contributed to the plan is set aside by the City in a fund established in compliance with PA 149 of 1999, called the Retiree Health Care Fund.

In order to offset these new costs to the City, the employees contribute \$25 per pay to the City's General Fund for current health care costs. To be eligible for retirement health care benefits, an employee must have a minimum of 15 years' seniority, or six years' seniority if they were a member of the clerical unit prior to January 1, 2000. For most employees, benefits do not commence until the employee starts to draw from the City's MERS pension plan. If an employee elects not to receive a health care benefit upon retirement, the City will provide a severance benefit equal to \$25 multiplied by the number of pay periods the employee worked subsequent to January 1, 2000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

Required Supplemental Information

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes:				
Real and personal property tax	\$ 2,886,158	\$ 3,060,680	\$ 2,862,693	\$ (197,987)
Refuse tax	333,013	333,013	333,013	-
Walled Lake Villa and mobile home taxes	10,750	10,750	11,550	800
Delinquent taxes	10,000	2,309	2,592	283
Collection fees	56,500	63,495	63,495	-
Interest, penalties, and other	20,000	19,499	39,569	20,070
Total property taxes	3,316,421	3,489,746	3,312,912	(176,834)
Licenses and permits:				
Building permits	251,250	214,899	222,496	7,597
Cablevision fee	80,000	93,405	93,405	-
Planning and zoning fees	71,500	51,123	49,198	(1,925)
Other licenses and permits	14,100	25,338	26,718	1,380
Total licenses and permits	416,850	384,765	391,817	7,052
Federal sources	25,771	76,856	83,365	6,509
State sources:				
Revenue-sharing	628,501	628,501	620,175	(8,326)
Police training	3,200	4,788	6,399	1,611
Liquor license fees	3,700	234	234	-
Total state sources	635,401	633,523	626,808	(6,715)
Charges for services:				
Radio service	38,480	38,480	38,480	-
Weed cutting	2,000	1,395	2,736	1,341
Cemetery lot sales	2,500	3,740	4,040	300
School liaison	41,522	24,041	42,624	18,583
Administrative charges to other funds	110,500	110,500	110,500	-
Total charges for services	195,002	178,156	198,380	20,224
Fines and forfeitures - District Court	70,500	74,875	89,853	14,978
Interest and rent:				
Interest and earnings	23,500	99,581	104,250	4,669
Equipment and building rental	42,250	27,458	31,528	4,070
Total interest and rent	65,750	127,039	135,778	8,739

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue (Continued)				
Other:				
Sale of fixed assets	\$ 2,500	\$ 9,159	\$ 9,159	\$ -
DARE contributions	40,000	40,000	40,000	-
Reimbursements	24,000	25,700	20,522	(5,178)
DDA sharing agreement	-	250,000	321,000	71,000
Refunds and rebates	16,100	5,560	5,560	-
Reimbursement for Maple Road debt service	272,300	272,300	272,300	-
Other	79,150	69,832	130,645	60,813
Total other	434,050	672,551	799,186	126,635
Total revenue	5,159,745	5,637,511	5,638,099	588
Expenditures				
General government:				
Mayor and Council	20,541	14,276	17,431	(3,155)
City manager	55,957	57,743	54,954	2,789
Assessor	56,000	48,633	48,633	-
Board of Review	470	540	540	-
Attorney	32,400	32,200	34,900	(2,700)
Prosecution and litigation	123,000	108,267	124,227	(15,960)
Clerk	263,510	225,404	246,070	(20,666)
Treasurer	256,276	243,044	255,988	(12,944)
General government	228,292	266,570	228,918	37,652
Total general government	1,036,446	996,677	1,011,661	(14,984)
Public safety:				
Police	1,559,640	1,426,995	1,471,856	(44,861)
Fire	845,174	888,072	900,421	(12,349)
Dispatch	337,651	316,546	336,164	(19,618)
Zoning Board of Appeals	3,000	960	657	303
Building inspection	220,439	244,423	248,800	(4,377)
Planning Commission	116,976	111,918	103,702	8,216
Total public safety	3,082,880	2,988,914	3,061,600	(72,686)
Public works:				
Department of Public Works	466,621	489,631	477,264	12,367
Sanitation	333,013	323,496	325,771	(2,275)
Debt service	272,300	272,300	272,300	-
Total public works	1,071,934	1,085,427	1,075,335	10,092

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Cultural and recreation:				
Parks and recreation	\$ 21,778	\$ 18,230	\$ 19,245	\$ (1,015)
Beautification Commission	2,000	1,789	2,106	(317)
Total cultural and recreation	23,778	20,019	21,351	(1,332)
Total expenditures	5,215,038	5,091,037	5,169,947	(78,910)
Other Financing Uses - Transfer out	164,693	164,693	164,978	(285)
Total expenditures and other financing uses	5,379,731	5,255,730	5,334,925	(79,195)
Excess of Revenue Over (Under) Expenditures and Other Financing Uses	(219,985)	381,782	303,174	(78,608)
Fund Balance - Beginning of year	456,938	456,938	456,938	-
Fund Balance - End of year	<u>\$ 236,953</u>	<u>\$ 838,720</u>	<u>\$ 760,112</u>	<u>\$ (78,608)</u>

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 268,500	\$ 268,500	\$ 252,914	\$ (15,586)
Interest earnings	10,000	10,000	27,210	17,210
Other	618	618	805	187
Total revenue	279,118	279,118	280,929	1,811
Expenditures				
Street construction	104,500	104,500	160,385	(55,885)
Street maintenance	104,618	103,721	111,949	(8,228)
Traffic signs	35,401	35,401	33,618	1,783
Administrative	70,557	71,454	53,785	17,669
Total expenditures	315,076	315,076	359,737	(44,661)
Other Financing Uses - Transfer out	-	-	65,000	(65,000)
Total expenditures and other financing uses	315,076	315,076	424,737	(109,661)
Excess of Expenditures and Other Financing Uses Over Revenue	(35,958)	(35,958)	(143,808)	(107,850)
Fund Balance - Beginning of year	531,259	531,259	531,259	-
Fund Balance - End of year	<u>\$ 495,301</u>	<u>\$ 495,301</u>	<u>\$ 387,451</u>	<u>\$ (107,850)</u>

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 24,339	\$ 24,339	\$ 24,339	\$ -
State-shared revenue	119,423	119,423	113,155	(6,268)
Interest earnings	2,000	2,000	6	(1,994)
Other	670	670	670	-
Total revenue	146,432	146,432	138,170	(8,262)
Other Financing Sources - Transfer in	-	-	65,000	65,000
Total revenue and other financing sources	146,432	146,432	203,170	56,738
Expenditures				
Street construction	29,500	34,500	94,625	(60,125)
Street maintenance	81,540	80,643	81,711	(1,068)
Traffic signs	4,381	4,381	1,417	2,964
Administrative	65,469	65,469	45,457	20,012
Total expenditures	180,890	184,993	223,210	(38,217)
Excess of Expenditures Over Revenue and Other Financing Sources	(34,458)	(38,561)	(20,040)	(18,521)
Fund Balance - Beginning of year	60,509	60,509	60,509	-
Fund Balance - End of year	<u>\$ 26,051</u>	<u>\$ 21,948</u>	<u>\$ 40,469</u>	<u>\$ (18,521)</u>

City of Walled Lake, Michigan

Note to Required Supplemental Information June 30, 2006

Note - Budgetary Information

The City adopts a formal budget for the General Fund, the Capital Project Fund, and all Special Revenue Funds. By the end of February, all department heads submit spending requests to the City manager so that a budget may be prepared. At the beginning of April, the proposed budget is submitted to the City Council for review. Public hearings are held and a final budget is adopted by the City Council no later than the third Monday in May. The City Council must approve any budget amendments. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated.

The budget document presents information by fund, activity, and line items. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. During the current year, the budget was amended after year end.

The following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement:

	Budget Statement	Operating Transfers	Property Taxes	Operating Statement
General Fund:				
Total revenue	\$ 5,638,099	\$ -	\$ 24,339	\$ 5,662,438
Total expenditures	5,334,925	24,339	-	5,359,264
Local Streets Fund - Total revenue	138,170	-	(24,339)	113,831

City of Walled Lake, Michigan

Note to Required Supplemental Information June 30, 2006

Note - Budgetary Information (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Walled Lake incurred expenditures that were in excess of the amounts budgeted in the following funds:

	Amended Budget	Actual	Variance
General Fund - Public safety	\$ 2,988,914	\$ 3,061,600	\$ (72,686)
Major Special Revenue Funds:			
Major Streets Fund - Street construction	104,500	160,385	(55,885)
Major Streets Fund - Transfers out	-	65,000	(65,000)
Local Streets Fund - Street construction	34,500	94,625	(60,125)

- (1) The unfavorable expenditure variance was caused by additional personnel and benefit costs incurred.
- (2) The unfavorable variances in the Major and Local Streets Funds occurred due to unanticipated changes in the progress of ongoing road projects during the year.
- (3) The unfavorable variance in the Major Streets Fund occurred due to a transfer that was budgeted in the prior year, but not made due to project setbacks. The current year budget was not amended to reflect the completion of the transfer.

Other Supplemental Information

City of Walled Lake, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Downtown Development Authority Year Ended June 30, 2006

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property taxes	\$ 930,149	\$ (15,914)	\$ 914,235
Interest earnings	61,999	-	61,999
Other income	19,886	(5,706)	14,180
Total revenue	1,012,034	(21,620)	990,414
Expenditures			
Street maintenance	3,416	-	3,416
Depreciation	-	22,918	22,918
Personnel costs	140,565	-	140,565
City agreement	321,000	-	321,000
Office and administrative expenses	36,510	-	36,510
Maple Road debt service	272,300	-	272,300
School facility reimbursement	63,625	(63,625)	-
Street construction	465,551	(437,829)	27,722
Planning and development	5,181	-	5,181
Miscellaneous	37,917	-	37,917
Total expenditures	1,346,065	(478,536)	867,529
Excess of Revenue Over (Under) Expenditures	(334,031)	456,916	122,885
Special Item - Loss on disposal of assets	-	132,000	132,000
Change in Net Assets	(334,031)	324,916	(9,115)
Net Assets - Beginning of year	842,080	(189,773)	652,307
Net Assets - End of year	<u>\$ 508,049</u>	<u>\$ 135,143</u>	<u>\$ 643,192</u>
Note: Net assets have been designated as follows:			
Proceeds from property sale	\$ 400,000		
Street lights	108,049		
Total designated net assets	<u>\$ 508,049</u>		

City of Walled Lake, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Walled Lake City Library Year Ended June 30, 2006

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property taxes	\$ 389,031	\$ -	\$ 389,031
State-shared revenue	14,263	-	14,263
Interest earnings	13,128	-	13,128
Commerce Township service fee	-	-	-
Video rentals	2,874	-	2,874
Library fines and fees	13,342	-	13,342
Other income	5,560	-	5,560
	<u>438,198</u>	<u>-</u>	<u>438,198</u>
Expenditures			
Personnel costs	247,313	-	247,313
Office and administrative expenses	90,563	-	90,563
Depreciation	-	84,921	84,921
Capital outlay	50,665	(45,401)	5,264
	<u>388,541</u>	<u>39,520</u>	<u>428,061</u>
Excess of Revenues Over Expenditures	49,657	(39,520)	10,137
Net Assets - Beginning of year	<u>223,151</u>	<u>405,987</u>	<u>629,138</u>
Net Assets - End of year	<u><u>\$ 272,808</u></u>	<u><u>\$ 366,467</u></u>	<u><u>\$ 639,275</u></u>



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August 9, 2006

To the Honorable Mayor and
Members of the City Council
City of Walled Lake
1499 East West Maple
Walled Lake, MI 48390

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Walled Lake (the "City") for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

State-shared Revenue

As you are aware, the ongoing budgetary challenges faced by the State of Michigan continue to negatively impact the City through its revenue-sharing payments. State-shared revenue accounted for approximately 11 percent of the City's General Fund revenue and government-wide revenue for the year ended June 30, 2006. These percentages have declined over the past several years, due to the State's economic troubles. The following chart depicts the City's actual and estimated revenue-sharing payments over a five year period - from the State's fiscal year ended September 30, 2002 through the estimated amounts for fiscal year ending September 30, 2007:

	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Estimated FY 2006	Estimated FY 2007
Constitutional	\$ 440,058	\$ 447,509	\$ 442,649	\$ 453,213	\$ 460,756	\$ 473,680
Statutory	<u>306,425</u>	<u>260,047</u>	<u>193,269</u>	<u>175,773</u>	<u>161,089</u>	<u>148,165</u>
Total payments	<u>\$ 746,483</u>	<u>\$ 707,556</u>	<u>\$ 635,918</u>	<u>\$ 628,986</u>	<u>\$ 621,845</u>	<u>\$ 621,845</u>
Dollar change		\$ (38,927)	\$ (71,638)	\$ (6,932)	\$ (7,141)	\$ -
Percentage change		-5.21%	-10.12%	-1.09%	-1.14%	0.00%

While the significant declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State's revenue structure. This has clearly impacted the City's ability to finance operations and capital spending. As of now, there appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

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It is important to recognize that the authority for the statutory portion of revenue sharing terminates on September 30, 2007. This portion represents approximately 25 percent of the City's total state-shared revenue recorded in its General Fund. We have not heard any significant discussion in Lansing regarding the plans for renewal at this time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program. The long-run health of the state-shared revenue may well be dependent on the State's current project to reform its business tax structure. We continue to urge the City to be conservative in its estimation of state-shared revenues as this line item in the State's budget remains vulnerable. We will continue to update the City as developments occur.

Budgeting and Cash Flow Requirements

To help evaluate whether the City's improved financial position can be sustained into the future considering the current negative economic business climate, the City should create and/or update a five-year financial forecast model that should include alternative scenarios the City could expect to encounter. The following are examples of different situations that will arise:

- The declining level of state-shared revenue received
- The restricted growth of future property tax revenues
- The issue of retiree health care funding
- Ability to provide future services consistent with today's level

By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints. This will also provide the City with relevant information to evaluate cash flow needs on a regular basis to determine what allowable investments will provide the best return for the period of time cash will not be immediately needed.

Personal Property Tax

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax multiplier tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax multiplier tables implemented by the State Tax Commission have been judicially upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some disputes have been settled and resolved. Others are at different stages of discussion and negotiation. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have underreported their self-constructed assets, creating the potential that monies were due to local governments for underpaid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of underreported self-constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters, leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the City to continue to monitor these developments as it concludes its own negotiations with utility providers, for the City could be negatively impacted by the final outcome.

Telecommunications Act Changes

Changes were made by the State Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the federal and state level to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would potentially negatively impact franchise fees received by local governments and create other right-of-way local control issues. We encourage the City to actively monitor these developments closely given the impact that a reduction in cable franchise fees could have on the City's budget.

Retiree Health Care Benefits

Two new accounting pronouncements were recently issued by the Governmental Accounting Standards Board (GASB). GASB Nos. 43 and 45 address the accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will only impact the individual fund-based financial statements to the extent the municipalities choose to fund this cost in advance. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits. We encourage the City, as part of its preparation for GASB No. 45, to soon consider exploring the impact of this pronouncement on the City with the assistance of an actuary as necessary.

The new pronouncements will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

GASB No. 45 is being phased in over a three-year period, similar to GASB No. 34. It is effective for the City's fiscal year ending June 30, 2008. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above date.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So funding the contribution in accordance with actuarial recommendations will actually reduce your long-run cost.

Technology

Recently, several new accounting software packages have become available to municipalities in Michigan. These new packages have capabilities, which exceed those of the City's current software package. These enhancements, of course, come at an increased price. Should the City decide to evaluate replacement of its current software package, we suggest that the City carefully consider the potential new software's ability to accommodate the water and sewer system customer billings needs and incorporate the accounting changes, which have resulted from the recent adoption of the GASB No. 34 accounting pronouncement, as well as the vendor's history of quality and customer service. We have a number of staff consultants, who do not work on any audit engagements, who routinely provide objective management advice to our governmental clients for improving their operations, including the effective use of enabling technology.

Internal Control Structure

The concept of “internal control structure” relates to the system of checks and balances intended to safeguard assets and ensure reliability of the accounting data. The City’s policies and procedures that have been put into place, the accounting system, and the environment in which the City operates all interact together to form the internal control structure.

In planning and performing our audit of the financial statements of the City of Walled Lake as of June 30, 2006, we considered the City’s internal control structure in order to determine the extent of our auditing procedures for the purpose of expressing an opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions; however, we noted two matters involving the internal controls and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control system that, in our judgment, could adversely affect the City’s ability to record, process, summarize, and report financial data consistent with management’s assertions inherent in the financial statements. In our opinion, this also represents a material internal control weakness.

This report is intended solely for the information and use of the City of Walled Lake’s management and others within the City.

- During the fiscal year, bank and investment accounts were not reconciled on a timely basis. A timely, accurate reconciliation must be consistently performed between the bank and other third-party records and the City’s general ledger for all significant cash and investment accounts and is a key part of a sound internal control system. As communicated in prior years, we suggest continuing to cross-train employees who are not involved in asset recording or custody to prepare bank reconciliations, including obtaining prompt resolution to unreconciled differences. The reconciliations should also be reviewed for accuracy by a second individual who is independent of the preparation process.
- Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. It is our understanding that the City treasurer at times has the ability to collect cash, prepare bank reconciliations, and create journal entries. To improve internal controls, we recommend that someone else independent of the recordkeeping functions be responsible for collection of all cash and cash equivalents (checks, etc.). We also suggest that all journal entries prepared by City personnel should be reviewed by a second individual for accuracy and propriety.

Accounting and Systems Issues

The following is a list of general accounting and internal control matters that we noted during the course of our audit:

- It was again observed during this year's audit that the City does not maintain a detailed building bond deposit subsidiary ledger listing that agrees to the general ledger nor are there any established procedures for performing a reconciliation of the general ledger to supporting bond deposit detail. One of the key accounting checks and balances is the ongoing maintenance of a subsidiary ledger and a monthly reconciliation of the detailed listing of building bonds payable to the general ledger.
- During the audit, we noted the City is experiencing some difficulty in reconciling certain property taxes for the City and the DDA to the final amounts per the settlement sheet that is approved by Oakland County. As property taxes are collected, a reconciliation should be performed to verify all property tax activity is accurately included in the general ledger accounts. We have personnel available that specialize in this area who could walk through the settlement process with the treasurer to assist with accurate recording of the activity.
- During the testing of water and sewer receivables, it was noted that there is a discrepancy in the amount of units billed that is reported in the monthly billing registers as compared to the actual usage billed to customers. Our testing did not indicate that customers were not billed or were inaccurately billed for water usage. The monthly summary reports limit the usage tracked to one meter, rather than including all meters billed for multi-metered customers. We recommend the City reconcile the units billed from the system-generated reports to actual billings on a monthly basis to verify the amounts billed to customers are accurate. Software enhancements may also be a potential solution. These reconciliations will assist the DPW director in monitoring the usage billed in relation to the amount purchased as an indicator of potential water loss due to line breaks and other system leaks.
- The City should review for accuracy the recurring payroll journal entries that were previously established and continue to be used monthly. By doing so, it will increase the City's understanding of overall payroll activity and allow for changes to be made to the entries to reflect current circumstances, if necessary. In addition, this would aid in updating the current status and activity of various general ledger withholding accounts.
- Considering the final debt payment was made during the year for the wastewater treatment plant and the overall cost increases the City has been facing relative to sewer operations, the City may want to consider combining its water and sewer activities into one fund in the future. The City's customer base for the two systems is generally the same. This fund combination would enable the City to budget these activities as one fund and may help extend the timeframe for passing on cost increases to customers in the form of higher annual sewer rates.

To the Honorable Mayor and
Members of the City Council
City of Walled Lake

7

August 9, 2006

We would like to thank you and your staff again this year for the cooperation and assistance provided during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in dark ink, appearing to read "Joseph C. Heffernan".

Joseph C. Heffernan

A handwritten signature in dark ink, appearing to read "D. Bohrer".

Douglas G. Bohrer